



CITY OF COLUMBIA, MISSOURI

May 25, 2012

OFFICE OF CITY MANAGER

Dear Mayor and City Council Members:

Historically, the City Manager's State-of-the-City message on programs and priorities has set the stage for the Council's retreat and a preview of future budget requests. I broke with that tradition last year because I had been in my position less than 30 days. Instead, I provided observations about the community and shared the principles that would guide my work as your City Manager.

This year, Council is breaking new ground at its retreat on June 8 and 9. You will focus on the creation of a strategic plan for City government. As elected policy makers, you bring critical information from citizens and your own experience. As your staff, we bring information on trends affecting our community and organization.

We can't control very many of the external factors that make up our environment. What we can do is acknowledge the facts that surround us and leverage our strengths to create the best possible outcomes for Columbia citizens.

Our key challenge is to assure that our primary planning documents align with the Community Vision and with our City budget. This is how we connect, engage with and stay accountable to citizens, and it will require continuing vigilance.

I want to acknowledge the great work of Momentum Public Strategies and Public Health and Human Services Director Stephanie Browning in managing the first steps of your planning process. They worked with you, with City executive staff, City employees, board and commission members and citizens to gather data on expectations and big-picture trends. In preparation for retreat, I will highlight a few of the most critical trends.

All in all, things are getting better and better.

Sales taxes are a great measure of the economy. They continue to increase, which means the number and value of transactions are growing in our community. This appears to be a great time to start a business in Columbia.

The parking spaces at the 5th and Walnut parking garage are fully leased and the retail space will be very close to fully leased by this fall. REDI's incubator space is nearly complete and the partnership with the League of Innovators is poised to capture the talent of our newest entrepreneurs.

The Police Department's relationship with important public partners is stronger than ever. The success of the "Silence the Violence" event is bringing hope to a whole community. The Fire Department successfully fought major fires, protecting life and property.

We've entered into historic partnerships with the US Environmental Protection Agency, Missouri Department of Natural Resources, the University of Missouri and Boone County to protect and improve Hinkson Creek.

The Parks Department continues to enjoy amazing support from the community. Its efforts to make life better for us all are a thing of beauty.

As we begin to prepare for the future, we can be fairly certain that our community will be larger and very possibly poorer. However, we will meet that future with our eyes and hearts open, prepared for what may come, and working to make it better than it would have been without our efforts.

Columbia's population is growing, and the young adult population is the largest and fastest-growing age group.

Nothing signals growth potential like our population demographic: 20% of Columbia's population is age 20 – 24. Forty percent is age 15 – 29. That's a lot of youthful energy getting in the driver's seat for the first time, taking social risks, starting to vote, drink, smoke and making other good and bad decisions!

What if they could channel that energy, succeed in school and then decide that Columbia is the place where they want to live, work, raise a family and start a business? How, as a community, can we nurture their ambitions and help them become their best selves? They contribute immensely to our economic well-being by holding part-time jobs, spending money, living in rental housing and weaving into our social fabric as volunteers. Without them, Columbia would be a very different place.

We have so much to gain from engaging this young and growing demographic. They're smarter than I was at the same age, and it's in Columbia's best interest to make them feel welcome and useful. Some strategic paths to consider may include:

- Stronger partnerships with educators to treat students as prime customers;
- Assuring that Columbia has an attractive mix of work, leisure and social opportunities to fit their preferences;
- Checking in with them frequently, using the communications tools they use;
- Using their transactions with the City as teaching opportunities.

The Columbia area is employing persons at a relatively high rate in the retail and service sectors and at a relatively low rate in manufacturing and high value-added industries.

The University of Missouri, Stephens College and Columbia College attract about 36,000 students to their campuses. If those students need to work, our healthy service economy suits their schedules very well. Between 2000 – 2009, for example, Boone County gained almost 2,000 retail trade jobs. The downside is that over the same period, the county lost more than 1,500 manufacturing jobs.

Service jobs mainly circulate the existing money supply through the community and generate sales taxes, which we use to support traditional government services and transit, roads and utilities. They tend to be part-time so, if you're supporting yourself or a family, you need more than one job to make ends meet. Manufacturing jobs are linked to more hours, better pay and benefits and to new wealth that can be reinvested in the community.

To be that magnet that keeps talented kids here in their hometown or that pulls in new graduates and families from other places, we can choose to diversify our employment base. The community partners and staff at REDI, Inc. have already made that commitment, with successes that include IBM and Linen King; perfect examples of a balanced job mix. In the coming months, we will talk with the area's 30 largest employers to stay intimately connected to the local economy and its needs. We will continue our efforts to attract and "grow" businesses with entrepreneurial mentoring and economic development tools suited to community preferences.

The rate of poverty and level of income inequality in Columbia are increasing.

Our significant student population, our loss of better-paying jobs and the recession's impact on families creates some uncomfortable facts for us. Columbia's 23% poverty rate is higher than the Missouri rate (14%) and the national rate (15%). Almost 6,900 kids in Columbia Public Schools are enrolled in the National School Lunch Program. That's 40% of our 17,700 local public school students, up from 31% in 2007, *before the recession*. The Columbia metro area's share of income in the middle class was 44% in 2010, down from 48.6% in 2006.

Poverty is a trifecta of bad news. It's a consistent predictor of poor economic, social, health and educational outcomes. It spills over into every aspect of local government with demands for social services, government supplied health care, public safety responses and code enforcement. Needs outstrip available funds, especially as decreasing federal and state support requires more local resources.

Our work with the Heart of Missouri United Way is focused on supporting services that have the greatest potential to create community impact: education, health, safety net and income, defined as financial stability and workforce readiness. This is, in my view, our standout strategic partnership. A local process identified common goals...the roles of the collaborators reflect their core strengths...and we have the capacity and authority to do good. Creating more jobs is something the City can and should do.

Rental housing is a significant portion of residential property in Columbia, and that trend will continue.

Of the 108,500 persons who called Columbia "home" in the 2010 Census, almost 56,000 of them said they were renters. Renters are diverse: students, families, people in transition, people on the verge of homeownership or who left their homes due to foreclosures, people who may never be able to afford a house and folks who prefer not to be saddled with the responsibility of maintaining property.

The number of rental units registered with the City has increased 35% from 2003, and most of them are rented. We don't know if this is a "bubble." This trend presents both risks and opportunities, and we will be challenged to respond appropriately.

- Rental property, generally, has risks associated with absentee landlords who don't always comply with building codes; it can put new pressures on existing roads, utilities and traffic flow; irresponsible renters who are not truly invested in their neighborhoods may do things that result in police calls; concentrating new units in undeveloped areas can lead to unwelcome sprawl and poor service to those renters.

- On the other hand, high-density housing can sustain improved public transit services and reduce traffic congestion. It can bring business to areas that have been waiting for drugstores, grocery stores and other convenient services, creating new economic centers.
- In any event, City staff must stay sharp in monitoring tenant complaints and staff up to accommodate the seasonal flow of utility and billing transactions as renters move in and out of their units.

The City's pension plans are critically underfunded. Liabilities have grown far faster and far beyond our ability to pay.

Pension plans are built partly on investments which, unfortunately, have performed very poorly during the economic recession. Recently, returns on investment are picking up, but they are not within the City's control. They also will never be able to catch up with the growing liabilities on their own.

This is not a unique story. Our pension obligations currently exceed our assets by more than \$100 million. Left unaddressed, the exploding cost of pensions would eliminate any possibility of an employee pay raise in FY 2013.

If there is a brighter side, it's that we all acknowledge there is a problem and that none of our other budget goals can be accomplished until this financial hemorrhaging ends. I will present several pension solutions before submitting my proposed FY 2013 budget in July. Discussions with employee groups continue, and I hope we can unite behind a balanced proposal that will allow a raise to be given next year.

Transportation funding is a continuing challenge.

The foundation of our federal transportation funding is the motor fuel tax, established when gas was cheap and plentiful, and cars used a lot of it. A "down" economy, gas prices that discourage driving, more fuel-efficient cars and greater use of public transit erodes this tax base. Across the country, there is more competition for these resources: roads usually get the biggest share, followed by bus systems and airports. This mirrors our own operations.

We added \$585,000 for paving in the current budget, for a total of \$1.6 Million. We've conducted Ward-based town hall meetings to prioritize the streets to resurface first. We also identified a roadmap (pardon the pun) in the budget that will increase this fund by another \$700,000 over the next four years. We have begun discussing our resurfacing efforts in terms of the number of years it would take us to resurface all public streets. Our current cycle time (after adding the \$585,000) is 56.8 years. This performance makes it pretty clear why the community puts this service first on the list of where to spend new money.

We also fund Columbia Transit and Columbia Regional Airport with transportation sales tax revenues. While we may be able to absorb the transit deficit for one more year (thanks to unexpected growth in transit sales tax revenues), we must continue efforts to achieve a self-supporting transit system by providing higher-value services that our customers will be willing to pay for. The City Council has worked diligently to achieve an improved and sustainable transit system. Your continued efforts will save this service.

Mayor McDavid's "FastCAT" proposal announced on May 24 is, in my opinion, transformational. It would better serve our growing youth demographic; revolve around Columbia's economic and social center; use modern technology; begin to pay for itself; enhance high-density living; and create a transparent trade-off that spotlights all the advantages of public transit.

With Council's continued support, we also can create a sustainable airport by adding destinations attractive to business and leisure travelers in Mid-Missouri. While our current facility can accommodate more air service, it will not be able to serve the market demand that already exists in Mid-Missouri. I suggest a short-term goal of adding as much new air service as the facility can handle and, when we've done that, begin to rebuild the airport that Mid-Missouri needs. This is a strategy based on a "when they come, we should build it" concept.

In partnership with the University of Missouri, Columbia's and Jefferson City's Chambers of Commerce and Boone County government we have been working diligently to create a revenue guarantee that will enable a mainstream airline to risk serving our market with more and better air service. We have achieved unprecedented access to decision-makers at major airlines. Their interest is highly encouraging. Our new Atlanta destination validates what we have told them, and I believe our load factors for the Atlanta connection will set records. I continue to be very optimistic about our chances to improve air service at COU.

The backlog of capital improvements is increasing.

One of the keys to our success in this arena will be to keep our promises made in voter-approved bond issues. Keeping these promises is a continuing core value of mine. Unfortunately, revenues did not come in as estimated in the last ballot (prior to the recession), and so we will not be able to construct Fire Station 10. This is, in a way, excellent timing as we are not in a financial position to staff it if it were built. We will need to communicate this clearly to voters as we return for future requests for taxes.

Perhaps the largest unmet need in our infrastructure is our storm sewers. After a good deal of internal review, my sense is that we should address these as a more integrated part of the whole sewer system. Thus, rather than attempt a new and large utility, we should fold needed stormwater projects into future sales tax ballot issues. Given the tremendous infrastructure needs across the city, we may need to ask for an increased percentage in future capital ballots.

An increased emphasis has been placed on high performance.

Last year we redesigned the budget to make it more transparent: revenue now is included with expenditures; we added charts and graphs; we use simpler language; and the document has fewer pages. There is more to accomplish here. I envision moving the performance measures that have been part of the budget to a new and different State-of-the-City report, an annual update to the community on our efforts to achieve our strategic plan goals. I would also foresee moving to a biannual budget at some future date. This is a significant amount of work for the Finance Department and may be one of the outcomes of the strategic planning process.

Tim Teddy and the employees of the new Community Development Department have done a fantastic job implementing the vision I outlined in the current budget. His staff worked with him to re-imagine what it is to do their work and now have coalesced around their mission to "Plan, Build, and Care for the Community". By the beginning of the next fiscal year, I expect the overhaul of their services to be complete, resulting in even higher levels of performance. They have managed this at the same time they have kept us on track with the Comprehensive Plan development (which is entering the home stretch) and caught up on a large backlog of inspections.

The single most impressive performance achievement in the last year has to be the Public Works Department's re-accreditation by the American Public Works Association. With John Glascock's leadership, the department was accredited across all 150 areas measured, with eight of them now recognized as international best practices. I know of no higher praise than this, and I couldn't be prouder of our people in Public Works.

We have elevated our commitment to customer service by developing service standards across the organization. Our staff is learning about these standards and how to achieve them in every department. We are embedding this service ethic into our organizational DNA by including customer service in every employee's performance evaluation and in continuing to hire people with strong talent for great public service.

I look forward to our work together at retreat. We have significant challenges ahead, but we know our course. Our employees are up to the challenge. Our funding streams are under stress but remain significant. Our capabilities as an organization have never been greater.

Best Regards,



Mike Matthes
City Manager